Date of Hearing: March 24, 2026

ASSEMBLY COMMITTEE ON HEALTH
Mia Bonta, Chair
AB 1672 (Solache) – As Introduced February 2, 2026

As Proposed to be Amended

SUBJECT: Medi-Cal: Program of All-Inclusive Care for the Elderly: rates.

SUMMARY: Increases transparency of, and establishes requirements related to, capitation rates paid to Program of All-Inclusive Care for the Elderly (PACE) organizations for care of dually enrolled Medi-Cal and Medicare beneficiaries. Establishes timelines for rates to be provided to PACE organizations, a comment period, and opportunity for negotiations. Requires the Department of Health Care Services (DHCS) to provide a rationale for any assumptions or calculations concerning PACE rates and to make a good faith effort to reach agreement with the contracting PACE organizations on capitation rates.

EXISTING LAW:

1) Requires the Director of DHCS to establish the PACE program to provide community-based, risk-based, and capitated long-term care (LTC) services as optional services under the state's Medi-Cal State Plan and under contracts entered into between the federal Centers for Medicare and Medicaid Services (CMS), DHCS, and PACE organizations, meeting the requirements of the federal Balanced Budget Act of 1997 (Public Law 105-33) and any other applicable law or regulation. [Welfare and Institutions Code (WIC) § 14592]

2) Exempts a primary care clinic, an adult day health care center, or a home health agency that exclusively serves PACE participants from licensure by the California Department of Public Health and requires these entities to be overseen and regulated by DHCS. [WIC § 14592]

3) Permits DHCS to enter into contracts with public or private organizations for implementation of the PACE program. Prohibits DHCS from waiving federal requirements of the PACE model, including the following requirements:

    a) A focus on frail elderly qualifying individuals who require the level of care provided in a nursing facility;

    b) Delivery of comprehensive, integrated acute and long-term care services;

    c) An interdisciplinary team approach to care management and service delivery;

    d) Capitated, integrated financing that allows the provider to pool payments received from public and private programs and individuals; and,

    e) The assumption by the provider of full financial risk. [WIC § 14593]

4) Requires the provision of a PACE benefit package for all participants, regardless of source of payment, that includes all Medicare-covered items and services, all Medicaid-covered items and services, as specified in the state's Medicaid plan, and other services determined

necessary by the interdisciplinary team to improve and maintain the participant's overall health status. [WIC § 14593]

5) Establishes capitated rate-setting using actuarial methods for PACE plans, for rates on or after January 1, 2017 and subject to federal approval, as follows:

   a) Allows DHCS to develop capitation rates using a standardized rate methodology across managed care plan models for comparable populations. Requires that the specific rate methodology applied to PACE organizations address features of PACE that distinguishes it from other managed care plan models;

   b) Requires the rate methodology to be consistent with actuarial rate development principles and to provide for all reasonable, appropriate, and attainable costs for each PACE organization within a region;

   c) Allows DHCS to develop statewide rates and apply geographic adjustments, using available data sources deemed appropriate by DHCS. Consistent with actuarial methods, requires the primary source of data used to develop rates for each PACE organization be its Medi-Cal cost and utilization data or other data sources as deemed necessary by DHCS;

   d) Requires rates to reflect the level of care associated with the specific populations served under the contract;

   e) Requires the rate methodology to contain a mechanism to account for the costs of high-cost drugs and treatments;

   f) Requires rates be actuarially certified before implementation;

   g) Requires DHCS to consult with PACE organizations in developing a rate methodology;

   h) Requires, consistent with federal law, DHCS to calculate an upper payment limit for payments to PACE organizations. In calculating the upper payment limit, requires DHCS to correct the applicable data as necessary and to consider the risk of nursing home placement for the comparable population when estimating the level of care and risk of PACE participants;

   i) Requires DHCS to pay the entity at a rate within the certified actuarially sound rate range developed with respect to that entity, to the extent consistent with federal requirements as necessary to mitigate the impact to the entity of the methodology developed pursuant to this subdivision; and,

   j) Requires, during the first two years in which a new PACE organization or existing PACE organization enters a previously unserved area, DHCS to pay at a rate within the certified actuarially sound rate range developed with respect to that entity, to the extent consistent with federal requirements, to reflect the lower enrollment and higher operating costs associated with a new PACE organization relative to a PACE organization with higher enrollment and more experience providing managed care interventions to its beneficiaries. [WIC § 14301.1]

FISCAL EFFECT: Unknown. This bill has not been analyzed by a fiscal committee.

COMMENTS:

1) **PURPOSE OF THIS BILL.** According to the author, this bill seeks to establish clear, reasonable expectations for transparency and meaningful engagement in PACE rate development. This improved transparency is intended to support responsible planning, program stability, and continued access to care through PACE programs.

2) **BACKGROUND.**

   a) **PACE**. PACE is a capitated benefit provided primarily to certain dually eligible Medi-Cal and Medicare beneficiaries that offers a comprehensive service delivery system that integrates Medicare and Medicaid financing. The program was modeled after the acute and LTC services of On Lok Senior Health Services in San Francisco. The model is unique in that the PACE organization enters a three-way contract with DHCS and CMS to deliver all Medicare and Medicaid services. CalPACE indicates PACE programs serve over 30,000 participants in 28 counties across California.

   By design, PACE serves individuals with significant health needs with the intent to provide preventive, primary, acute, and LTC services so older individuals can continue living in the community and avoid hospitalization and skilled nursing facility (SNF) services. To be eligible for PACE, a person must be 55 years or older, reside in a PACE service area, be determined eligible at the nursing home level of care by DHCS, and be able to live safely in their home or community at the time of enrollment. Enrollment in PACE is voluntary. An interdisciplinary team, consisting of professional and paraprofessional staff, assesses participants' needs, develops care plans, and delivers all services (including acute care services and when necessary, nursing facility services). The PACE service package must include all Medicare and Medicaid covered services and other services determined necessary by the interdisciplinary team for the care of the PACE participant. PACE plans assume full financial risk for participants' care without limits on amount, duration, or scope of services.

   DHCS's November 2025 Local Assistance Estimate assumes PACE expenditures of $2.4 billion ($1.3 billion General Fund) in 2025-26 and $3.3 billion ($1.7 billion General Fund) in 2026-27. The number of PACE organizations has grown dramatically in recent years, with over 20 new PACE organizations commencing operations between July 2025 and January 2027. Because of this rapid growth, DHCS instituted a moratorium on applications for new PACE organizations on November 17, 2025.

   b) **Rate-Setting for Medi-Cal Managed Care**. DHCS pays each health plan a monthly premium, known as a capitated rate, for each enrolled member. DHCS contracts with actuaries to calculate rates, typically on a calendar year basis. Plans submit historical cost and utilization data to inform the calculation and DHCS applies a series of transformations and factors (including program changes, trend factors, risk adjustment, and others) to calculate the final rate. Different rates are calculated for each category of population covered by Medi-Cal (children, seniors, etc.). Federal and state law require plans to be paid "actuarially sound" rates which must adhere to federal regulation and actuarial industry standards of practice. To obtain federal funding for the Medi-Cal program, rates must be submitted annually and approved by CMS.

c) **Rate-Setting for PACE**. According to MACPAC, a federal advisory body on Medicaid policy and financing, states must develop a Medicaid capitation rate for PACE enrollees based on the cost of Medicaid state plan services for the state's comparable nursing facility-eligible population. Federal statute does not require PACE Medicaid capitation rates to be actuarially sound, unlike other managed care rates. Generally, MACPAC indicates, most states base the capitation amount for each Medicaid beneficiary enrolling in PACE on a blend of the cost of nursing facility and community-based care for the frail elderly in the area, as well as Medicaid managed care data in those states where applicable. However, California develops rates using actuarial methods that reflect experience and utilization data specific to the PACE organization. MACPAC notes that DHCS indicated in an interview that although DHCS regularly engages with PACE organizations and makes efforts to be transparent about rate-setting, DHCS still receives feedback from PACE organizations that they do not understand how rates are developed and that they do not feel the process is transparent.

   Federal regulations (Title 42, Code of Federal Regulations [CFR] 460.182) and CMS rules specified in a recently updated (January 1, 2025) PACE Medicaid Capitation Rate Setting Guide set strict guidelines for calculation of PACE rates. Federal regulations require the monthly capitation amount to be negotiated between the PACE organization and state Medicaid agency. The amount, or the methodology used to calculate the amount, is specified in the PACE program agreement. PACE rates must be less than the "amount that would have otherwise been paid" (AWOP) under the Medicaid state plan if the individual was not enrolled in PACE. PACE rates also take into account comparative frailty of participants and must be a fixed amount regardless of changes in a participant's health status. Enrollment in PACE saves money compared to the AWOP. Data shows the lower bound for PACE rates in 2025 was about 80% of the AWOP, while the upper bound was about 88% of the AWOP.

   According to DHCS, the department develops actuarial rate ranges that apply to each PACE organization, representing a range of rates that are actuarially appropriate, in accordance with generally accepted actuarial principles and practices, and using an experience-based rate approach that leverages PACE organizations' historical cost experience to project reasonable, appropriate, and attainable future costs. Each rate range contains a lower bound, midpoint, and upper bound. DHCS selects and pays each PACE organization capitation rates within the actuarial rate ranges. Beginning January 1, 2027, DHCS will cap payments to PACE organizations at the midpoint of the actuarial rate ranges, such that actual payment rates are not less than the lower bound and not greater than the midpoint.

d) **PACE Organizations' Complaints about Current Process**. According to CalPACE, when final rates are released, PACE organizations are asked to comment on the prospective rates without access to the underlying data, assumptions, or calculations used to develop those rates. CalPACE asserts that DHCS does not consistently explain why specific assumptions are selected, how historical data are weighted, how changes in methodology affect rate outcomes, or why the final rate within the rate range was selected. Without visibility into the actual data and methodologies used, they argue providers are unable to meaningfully assess or respond to proposed rates. CalPACE also points out the rate-setting process creates significant operational uncertainty, making it

difficult to responsibly plan for staffing, services, and growth when they do not understand how rates are calculated or why rates change from year to year.

3) **SUPPORT.** This bill is sponsored by CalPACE, the trade organization for PACE organizations. The California Association for Adult Day Services and a large number of PACE organizations support this bill, indicating it establishes a clear, reasonable expectation for transparency and good-faith engagement in PACE rate development. Supporters argue this bill will create more operations stability and long-term planning for PACE organizations by requiring DHCS to offer more clear and transparent engagement.

4) **RELATED LEGISLATION.** AB 2327 (Lowenthal) would require DHCS to ensure rates paid to subcontracting managed care plans are actuarially sound, similar to rates paid to plans that contract directly with DHCS. AC 2327 is pending in the Assembly Health Committee.

5) **PREVIOUS LEGISLATION.** SB 833 (Committee on Budget and Fiscal Review), Chapter 30, Statutes of 2016, modifies the rate setting methodology for the PACE by using the rate-setting methodology used for managed care organizations; specifies that the rate setting methodology shall address unique features of PACE programs and high cost drugs and treatments; requires DHCS to calculate an upper payment limit for payments to PACE programs; requires DHCS to adjust the rates for the first two years of a new PACE program; eliminates from law the cap on the number of PACE programs; clarifies that PACE programs may be for-profit organizations; and authorizes DHCS to seek federal approval to allow for administrative flexibilities within the operations of PACE programs.

REGISTERED SUPPORT / OPPOSITION:

Support

CalPACE (sponsor)
Altamed Health Services
Alzheimer's Association
Bakersfield PACE
California Association for Adult Day Services
Center for Elders Independence
Chinatown Service Center
Family Health Centers of San Diego
Fresno PACE
Gary and Mary West PACE
Golden Valley Health Centers
Innercare
Innovative Integrated Health INC.
LeadingAge California
Neighborhood Healthcare
NEMS
On Lok
Orange County PACE
Redwood Coast PACE
San Diego PACE
Numerous individuals

Opposition

None on file

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